

3.3

Credit Cards and Store Promotions

Credit: an agreement in which a borrower receives something of value, and agrees to pay for it later.

Finance charge: the total amount of interest paid to borrow a sum of money.

EXPLORE THE MATH

“Buy Now, Pay Later!” “Sign up for our credit card and receive a free gift!” Promotions like these are used to attract customers and sell items that customers might not otherwise be able to afford, and to have people sign up for particular credit cards. When you make use of these promotions, you are relying on credit.

Credit is a type of loan in which a borrower receives something of value and agrees to pay the lender for it later.

Credit cards are issued by banks and other financial institutions, as well as by many department stores and gas companies. A credit card can be convenient, but if you do not pay the credit card balance by the due date, the credit card issuer charges interest on the remaining money you owe and on the cost of new purchases made before the next credit card statement date. This interest is called a **finance charge**. Credit card companies have different ways of calculating interest, so be sure you understand the terms of any card you may get.

Stores often offer promotions offering credit and allowing you to defer payment for months or years. These offers enable you to buy an item without paying the full amount immediately. In exchange, the stores often charge high interest rates on the purchase amounts when the payments are made.

Be sure you understand the conditions of a store promotion or credit card before you sign an agreement. Researching your credit options will help you to use credit effectively.

Evaluate the three credit card offers by filling out the chart below. Summarize your results by answering the questions that follow.

Comparing Credit Cards

Choosing a Credit Card: Comparing all the Options

Card Costs and Features	Card 1:	Card 2:	Card 3:
Interest Rate			
Balance Calculation Method			
Duration of Grace Period			
Annual Fee			
Late Fee			
Cash Advance Fee			
Over the Limit Fee			
Transaction Fee			
Minimum Finance Charge			
Any Special Offers?			

Are the offers alike or different? Explain your answer.

What hidden fees increase the cost of using credit?

Was the information easy to find and understand? Explain your answer.

Which credit card would you choose and why?

Cash advance: a withdrawal of cash from an ATM or bank teller charged to a credit card

-interest is usually calculated from the day of the withdrawal.

Example 1: Calculating interest on cash advance

- John charges a cash advance of \$500.00 to his credit card.
- appears on January 27 statement and he doesn't pay it
- next statement if February 27
- bank charges 18.00% annual interest for cash advances starting on the day of the withdrawal

Calculate the interest that John is charged for the January 12 cash advance.

Step 1: Calculate the number of days that interest was added on
(you may need a calendar for this)

number of days from Jan.12 to Feb.27?

Step 2: To use the formula $I=Prt$, find P, r, and t

Step 3: Fill in the formula and solve for I